

**LEGAL RIGHTS CENTER, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2013 and 2012**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
 LEGAL RIGHTS CENTER, INC.  
 Minneapolis, Minnesota

### *Introductory*

We have audited the accompanying financial statements of LEGAL RIGHTS CENTER, INC. (a Minnesota tax-exempt corporation), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LEGAL RIGHTS CENTER, INC. as of December 31, 2013, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Thomas Lewis & Associates P.A.*

THOMAS LEWIS & ASSOCIATES, P.A.  
 May 2, 2014



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**LEGAL RIGHTS CENTER, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2013 and 2012

<b>ASSETS</b>	Unrestricted	Temporarily Restricted	Totals	
	2013	2012		
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 190,742	\$ 60,243	\$ 250,985	\$ 162,694
Promises to give	-	-	-	35,000
Accounts receivable	121,001	-	121,001	123,966
Prepaid expenses	2,982	-	2,982	2,819
Total Current Assets	314,725	60,243	374,968	324,479
<b>PROPERTY AND EQUIPMENT - At Cost</b>				
Land and building	300,000	-	300,000	300,000
Building improvements	404,980	-	404,980	379,130
Furniture and office equipment	189,619	-	189,619	165,201
	894,599	-	894,599	844,331
Less, accumulated depreciation	538,065	-	538,065	506,459
Net Property and Equipment	356,534	-	356,534	337,872
	\$ 671,259	\$ 60,243	\$ 731,502	\$ 662,351
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 2,790	\$ -	\$ 2,790	\$ 16,649
Accrued expenses	896	-	896	1,945
Line of credit	-	-	-	12,500
Current portion of long-term debt	6,662	-	6,662	14,765
Total Current Liabilities	10,348	-	10,348	45,859
<b>LONG-TERM LIABILITIES</b>				
Notes payable	53,797	-	53,797	503
Total Liabilities	64,145	-	64,145	46,362
<b>NET ASSETS</b>	607,114	60,243	667,357	615,989
	\$ 671,259	\$ 60,243	\$ 731,502	\$ 662,351

See independent auditor's report and notes to financial statements.

**LEGAL RIGHTS CENTER, INC.**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended December 31, 2013 and 2012

	Unrestricted	Temporarily Restricted	Totals	
			2013	2012
<b>SUPPORT AND REVENUE</b>				
Public Support:				
Corporations and Foundations	\$ 89,000	\$ -	\$ 89,000	\$ 98,500
Law firms and Attorneys	37,100	-	37,100	44,865
In Kind donations	69,242	-	69,242	48,572
Total Public Support	195,342	-	195,342	191,937
Other Revenue:				
Government fees	31,565	-	31,565	20,915
Government contract services	76,350	-	76,350	-
Government grants	582,978	-	582,978	549,748
Individual Donations	22,671	-	22,671	18,603
Other miscellaneous income	28,525	-	28,525	7,633
Interest income	26	-	26	43
Rental income	18,900	-	18,900	20,400
Total Other Revenue	761,015	-	761,015	617,342
Net Assets Released from Restrictions	(8,146)	8,146	-	-
Total Support and Revenue	948,211	8,146	956,357	809,279
<b>EXPENSES</b>				
Program Services:				
Legal defense and education	475,807	-	475,807	455,175
Family & youth restorative services	290,507	-	290,507	174,900
	766,314	-	766,314	630,075
Supporting Services:				
Management and general	99,387	-	99,387	103,074
Fundraising	39,288	-	39,288	39,182
	138,675	-	138,675	142,256
Total Expenses	904,989	-	904,989	772,331
<b>CHANGE IN NET ASSETS</b>	43,222	8,146	51,368	36,948
<b>NET ASSETS:</b>				
Beginning of Year	563,892	52,097	615,989	579,041
End of Year	\$ 607,114	\$ 60,243	\$ 667,357	\$ 615,989

See independent auditor's report and notes to financial statements.

**LEGAL RIGHTS CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2013 with Comparative Totals for 2012

	Program Services		Supporting Activities		Totals			
	Legal	Family & Youth	Management & General	Fund- Raising	2013		2012	
	Defense and Education	Restorative Services			Amount	Percent of Total	Amount	Percent of Total
Salaries	\$ 321,103	\$ 138,454	\$ 73,945	\$ 32,500	\$ 566,002	62.5 %	\$ 522,869	67.7 %
Payroll Taxes & Benefits	77,598	28,517	13,085	2,486	121,686	13.4	115,966	15.0
Auto and Travel	8,134	1,260	446	-	9,840	1.1	10,739	1.4
Occupancy	6,911	3,721	1,170	450	12,252	1.4	11,818	1.5
Telephone	3,205	1,725	543	208	5,681	0.6	9,653	1.2
Office Supplies	3,096	1,667	524	202	5,489	0.6	4,605	0.6
Professional Development	355	205	-	-	560	0.1	2,589	0.3
Library	556	-	-	-	556	0.1	575	0.1
Program Expenses	1,512	402	574	-	2,488	0.3	404	0.1
Postage and Printing	2,780	1,497	471	181	4,929	0.5	5,565	0.7
Meetings and Conferences	425	379	142	-	946	0.1	1,598	0.2
Insurance	8,139	4,381	1,378	529	14,427	1.6	13,274	1.7
Repairs and Maintenance	12,088	6,507	2,046	786	21,427	2.4	19,052	2.5
Miscellaneous Expense	3,027	1,630	513	197	5,367	0.6	3,125	0.4
Interest Expense	2,044	1,101	346	133	3,624	0.4	1,235	0.2
Contract Services	-	85,690	-	-	85,690	9.5	15,869	2.1
Professional Fees	7,005	3,772	1,186	456	12,419	1.4	9,851	1.3
<b>Total Expenses</b>	<b>457,978</b>	<b>280,908</b>	<b>96,369</b>	<b>38,128</b>	<b>873,383</b>	<b>96.5</b>	<b>748,787</b>	<b>97.0</b>
Before Depreciation								
Depreciation	17,829	9,599	3,018	1,160	31,606	3.5	23,544	3.0
<b>Total Expenses</b>	<b>\$ 475,807</b>	<b>\$ 290,507</b>	<b>\$ 99,387</b>	<b>\$ 39,288</b>	<b>\$ 904,989</b>	<b>100.0 %</b>	<b>\$ 772,331</b>	<b>100.0 %</b>
Percent of Total:	52.6%	32.1%	11.0%	4.3%	100.0%			

See independent auditor's report and notes to financial statements.

**LEGAL RIGHTS CENTER, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 51,368	\$ 36,948
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	31,606	23,544
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Promises to give	35,000	(35,000)
Accounts receivable	2,965	(9,966)
Prepaid expenses	(163)	977
Increases (decreases) in:		
Accounts payable	(13,859)	14,189
Accrued expenses	(1,049)	(1,845)
	105,868	28,847
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(50,268)	(17,466)
	(50,268)	(17,466)
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit	(12,500)	12,500
Proceeds on new loans	70,000	-
Principal payments on long-term debt	(24,809)	(4,996)
	32,691	7,504
<b>Net Cash Provided by Financing Activities</b>		
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	88,291	18,885
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	162,694	143,809
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 250,985	\$ 162,694
<b>SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:</b>		
Interest paid	\$ 3,624	\$ 1,235

See independent auditor's report and notes to financial statements.

**LEGAL RIGHTS CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Legal Rights Center, Inc. (the "Organization", "LRC") was incorporated in 1970 in response to concerns of communities of color and the legal community that fundamental inequalities existed within the criminal justice system of Hennepin County.

**Purpose**

The Organization's mission is to provide the highest quality criminal defense and restorative justice services to low-income people, in particular people of color. Their focus is Hennepin County, their priority is juveniles, and their services are at no cost.

The Organization exists to provide equal access to justice -- through restorative services and in the criminal and juvenile courts -- and to redress the underlying factors that have already led, or could lead, to criminal or delinquent behavior. They do so in recognition that many individuals from historically oppressed communities face barriers not only from generational poverty but also a deep alienation from society. The Organization uses culturally-specific outreach, education, and advocacy, in correlation with legal and restorative methods, to proactively improve communities while responsively serving a wide range of individual needs.

The Organization's programs include the following:

***Legal Defense and Education*** - This program helps persons of low income who have problems with the law and provides attorney representation to persons brought into criminal or juvenile court. Staff Community Advocates choose the cases, prioritizing clients for whom they believe that LRC representation can make a positive impact; they then work with the LRC attorneys in finding services, culturally-specific when available, that can lead the clients to address the root causes of their involvement in the criminal or juvenile justice system and steer clear of future problems with the law. The program also provides outreach and education, assisting individuals in accessing other legal programs or providing necessary legal advice or information. Legal education presentations at schools and community centers are an additional component of the program.

***Family and Youth Restorative Services*** - This program encompasses specially designed projects with institutional partners. Using restorative conflict resolution methods, the projects implement advocacy goals of low income communities of color while at the same time benefiting individuals and families.

**Basis of Presentation**

The financial statements have been prepared in conformity with the disclosure requirements of U.S. generally accepted accounting principles for not-for-profit organizations. Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes thereto are classified and reported as follows:

**Unrestricted Net Assets** - This classification contains net assets that are not subject to donor-imposed stipulations.



**LEGAL RIGHTS CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Temporarily Restricted Net Assets** – Includes net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization, with the passage of time.

**Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**Subsequent Events**

Management has evaluated subsequent events through May 2, 2014, which is the date the financial statements were available to be issued.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and equivalents for the years ended December 31, 2013 and 2012 totaled \$250,985 and \$162,694, respectively.

**Accounts Receivable**

The Organization uses the direct write-off method for balances deemed uncollectible. There were no such write-offs for the years ended December 31, 2013 or 2012 and all accounts receivable are considered collectible by management.

**Promises to Give**

In accordance with the U.S. generally accepted accounting principles, promises to give are shown as revenues or gains in the statement of activities in the period in which the promise is received, with an offsetting receivable shown on the statement of financial position. At December 31, 2013 and 2012, promises to give were \$0 and \$35,000, respectively.

**Property and Equipment**

Property and equipment are stated at cost. Contributed equipment is recorded at fair value at date of donation. Depreciation is provided through the use of straight-line method using the estimated useful lives of individual assets, typically 5 to 15 years.

The Organization expenses maintenance and repair expenditures and capitalizes major renewals and betterments. The organization removes capitalized costs and related accumulated depreciation from the accounts upon sale or other retirement of depreciable property and reports resulting gains or losses.

**Unrestricted, Temporarily Restricted and Permanently Restricted Revenue and Support**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. The Organization had no permanently restricted net assets at December 31, 2013 or 2012. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated

**LEGAL RIGHTS CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as restricted support and then released from restriction.

**Revenues**

Donations, grants, contributions, and all other forms of revenue are considered unrestricted use unless specifically restricted by the donor or until a specific amount of time has passed.

**Donated Material and Services**

Donated material and services are recorded as a contribution when received, at their fair market value, if significant and measurable.

**Income Taxes**

The Organization is considered a tax-exempt, nonprofit organization under Section 501 (c) (3) of the Internal Revenue Code and Minnesota Statute 290.05; therefore, there is no provision for income taxes. The Organization's open audit periods are the years ended December 31, 2010 through 2013.

The Organization has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2013.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for tax return years prior to the year ended December 31, 2010.

The Organization's policy is to classify any income tax related interest and penalties in interest expense and other expenses, respectively.

**NOTE B - NOTES PAYABLE**

The Organization incurred two loans payable, through a program offered jointly by the City of Minneapolis and Bremer Bank, to cover the remaining costs of a sewer separation project required by the City of Minneapolis. As part of this program, the City of Minneapolis funds one loan at an interest rate of 2% per annum, provided that another loan in the same amount is obtained through Bremer Bank. Both loans are secured by the cash, receivables, and personal property of the Organization and are administered by Bremer Bank. Both loans were refinanced in 2013 as part of a mortgage loan in the amount of \$70,000 from Bremer bank .

**LEGAL RIGHTS CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE B - NOTES PAYABLE (Continued)**

Details of 2013 Bremer Mortgage are as follows:

	<u>Total</u>	<u>Current</u>
Loan payable, Bremer Bank. Monthly payments \$727.59 including interest at 4.5% per annum, matures January 25, 2018, with a last payment of \$39,696.56, secured by the building.	<u>\$59,956</u>	<u>\$6,159</u>

Future maturities are as follows for the years ending December 31:

	Amount
2014	\$ 6,159
2015	6,442
2016	6,738
2017	7,047
2018	33,570
Total	\$ 59,956

In 2012 the Organization incurred a no interest, 24 month loan to finance an interior lighting project.

Future maturities are as follows for the years ending December 31:

	<u>Total</u>	<u>Current</u>	<u>Long-term</u>
Loan payable, CRF USA. Monthly payments \$71.91 no interest, matures 2014.	<u>\$503</u>	<u>\$503</u>	<u>-</u>

**NOTE C - COMMITMENTS AND CONTINGENCIES**

**Concentrations of Risk**

The Organization provides legal and alternative dispute resolution services for minorities and the poor throughout Hennepin County, Minnesota. Accordingly, the Organization relies upon a significant amount of support from government agencies. In the year ended December 31, 2013, this support amounted to approximately 72% of total revenue and in 2012, 71%. Should the Organization not be able to provide the services expected by the government agencies, or should the agencies reduce their contributions, the financial operations of the Organization would be severely impacted.

The Organization maintains cash and savings accounts in a single financial institution. The Federal Deposit Insurance Corporation insures accounts up to \$250,000 at that institution. At December 31, 2013 and 2012, there were no balances in excess of this limit.